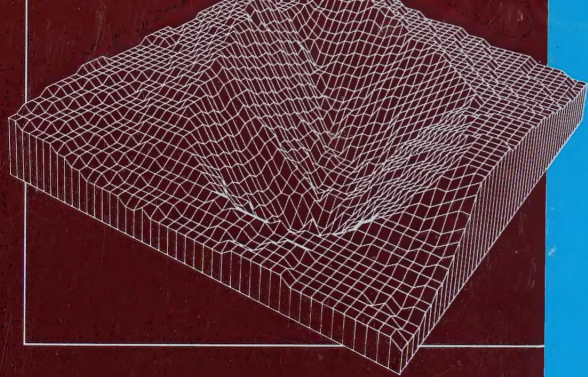


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**Consolidated
Cinola Mines Ltd.**



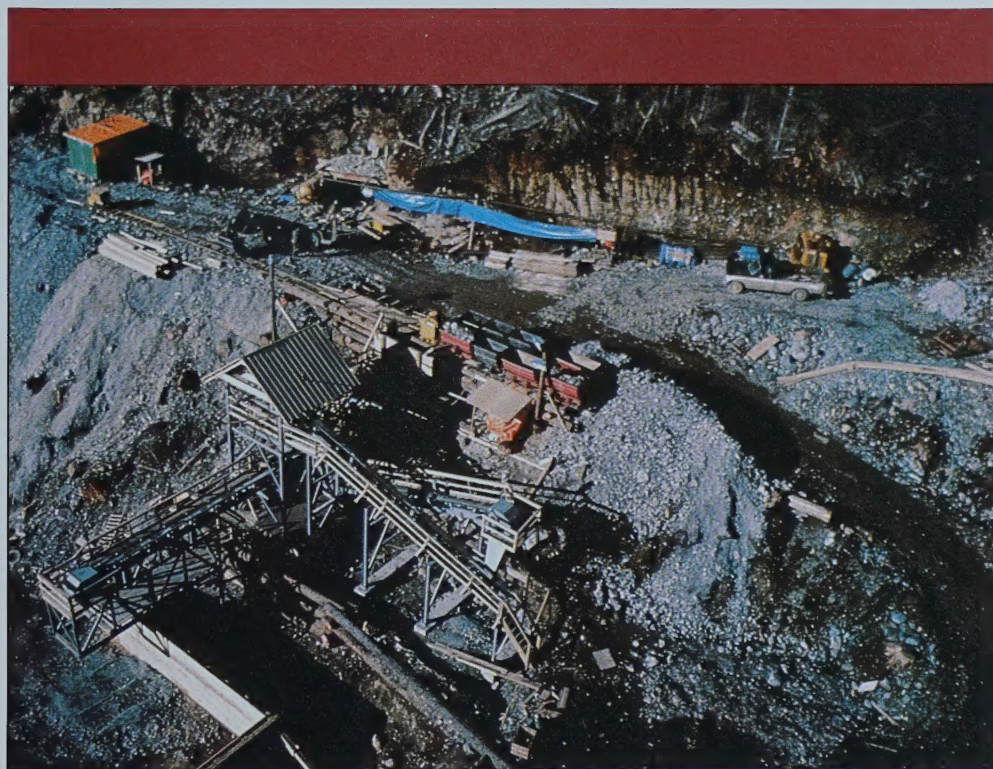
Annual Report 1981

With exploration and development of the Queen Charlotte gold deposit complete, we are now convinced that we can initiate the engineering and construction of a major open pit gold mine. The last four years of gathering and analysing data have produced results which we are now costing and optimizing in order to prove the economic feasibility of the project. There are only a few points which require clarification before we have a "bankable" project and can embark on the construction stage, and so the year 1982 will definitely be one of transition.

The goals of the Company for 1981 were to complete the data base on the Queen Charlotte

gold project and finish the feasibility study. While we were able to accomplish the first objective, some pleasant surprises meant that we had to take a longer and harder look at the project, and so the final feasibility study will not be completed until mid 1982. As the data on the deposit emerged through the year it became very clear that the deposit differed from the original estimation, containing significantly more gold and in more varied concentrations than originally thought. This fact showed the need for flexibility in the 1981 program of bulk sampling and pilot milling.

The underground bulk sample program was designed to confirm surface vertical drill results and supply feed for the 50 ton per day pilot mill. Early in the program, significantly higher grade material was encountered. An underground drill program late in 1981 confirmed the extent and nature of this higher grade material, which will substantially alter the economics of the project. It is



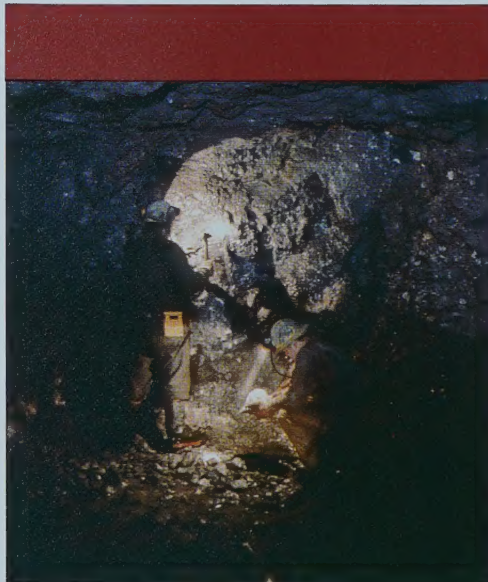


now possible to consider a "high grading" option in the financial analysis, enabling us to mine higher than anticipated grades during the payback period.

Considerable effort and expense went toward testing and optimizing gold recovery. The pilot mill, which operated from May to December was based on preliminary metallurgical results obtained in 1980 from diamond drill core samples. Initially, results were only partially successful, mainly because the mill feed differed significantly from the sample used for circuit design. Ultimately, pilot mill and bench scale testing produced eight flowsheet options for the large processing plant.

Work to date on the feasibility study has eliminated all but three of those options. The optimizing process of the feasibility study continues, and the final flowsheet should be developed in the second quarter of 1982. Our metallurgical engineers are determining the optimum gold recovery, which simply means the highest gold recovery for the lowest possible cost. While work to date has indicated a lower than usual percentage gold recovery, total cost per ounce will be very competitive with other Canadian gold producers, with preliminary data indicating a cost per ounce in the range of \$200 (U.S.).

The most important part of the optimizing process is the integration of the supply of consistent mill feed (mining) with the most efficient method of extraction (milling). After studying several different mining and milling options we found that adequate profitability can be obtained only with an operation of 9,000 metric tonnes per day (10,000 short tons





per day) or larger. It now appears very likely that the economic parameters of the final feasibility study will be based on a mill capacity of 13,500 metric tonnes per day (15,000 short tons per day). The other parameters developed to date include a gold recovery of 75 percent, an average grade of mill feed of 0.067 ounces gold per tonne and a gold price of \$400 U.S. per ounce.

With respect to the current condition of depressed gold prices, we do not believe that the present price affects the profitability of the project simply because we are not yet producing. We believe that the timing of the project in relation to gold prices could not be better, as it is our opinion that we are nearing the end of the downward trend in

price and expect gold at least to keep pace with inflation over the next decade. We believe that by the time the mining operation is on stream we will find ourselves in the uptrend part of the gold cycle, and so our base case gold price of \$400 U.S. is considered to represent a conservative outlook.

Perhaps more important than the final feasibility study is the timely submission of the Stage II Environmental Study to the provincial authorities. We have worked diligently on this aspect of the project and are preparing a well researched, comprehensive presentation to the government. Once the Stage II Study is submitted this summer, public input will be invited. Given the benign nature of our flow-sheet options and the vast

economic benefit of the project to the regional economy of the Queen Charlottes we believe we will have the support of all parties concerned.

The final feasibility study and Stage II submission are scheduled for completion by mid 1982. Data to date indicate that we have a viable project and it is the opinion of the management that construction could commence this year. Our primary objective is to ensure continuity of the project. To this end, our efforts in the financing and permitting aspects of the project should allow for the engineering and construction of a major open pit gold mine.

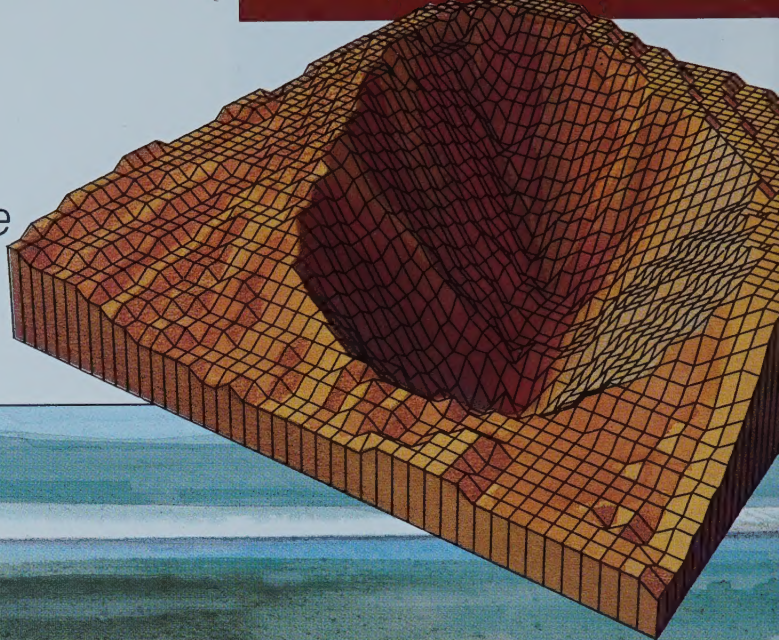
On Behalf of
the Board of Directors

K. G. Sanders, P.Eng.,
President and
Chief Executive Officer.

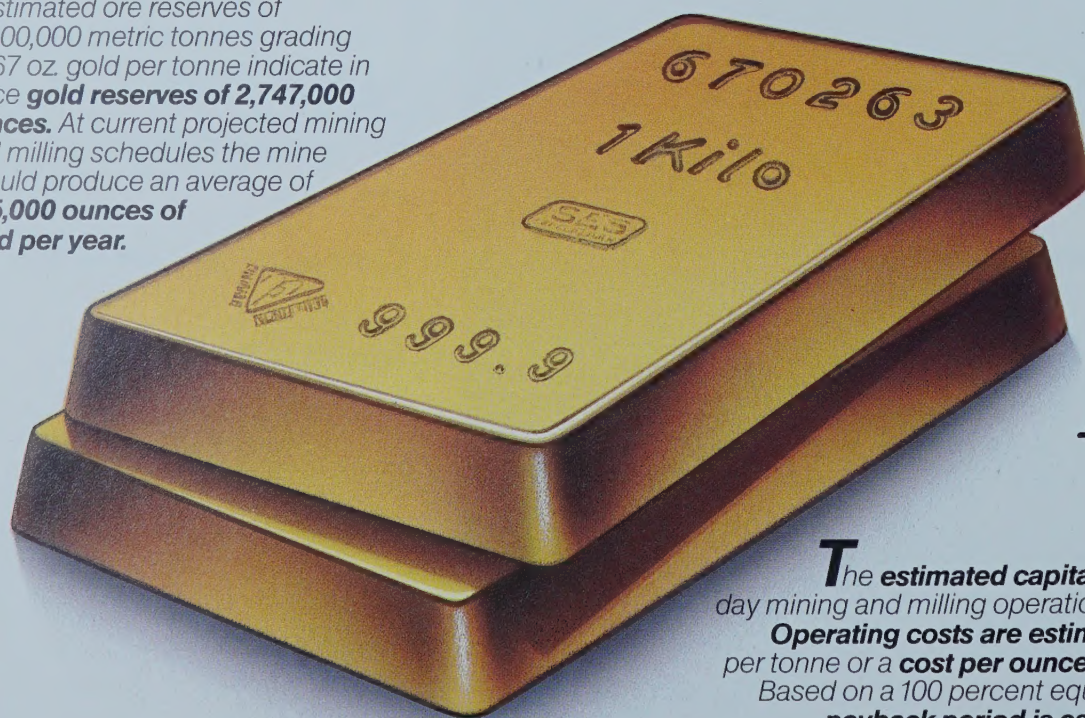
Angelo Tosi,
Chairman of the Board.



As the Final Feasibility Study is being compiled we have been able to develop and narrow the project details. The following is a brief presentation of the economic and operating statistics developed to date.

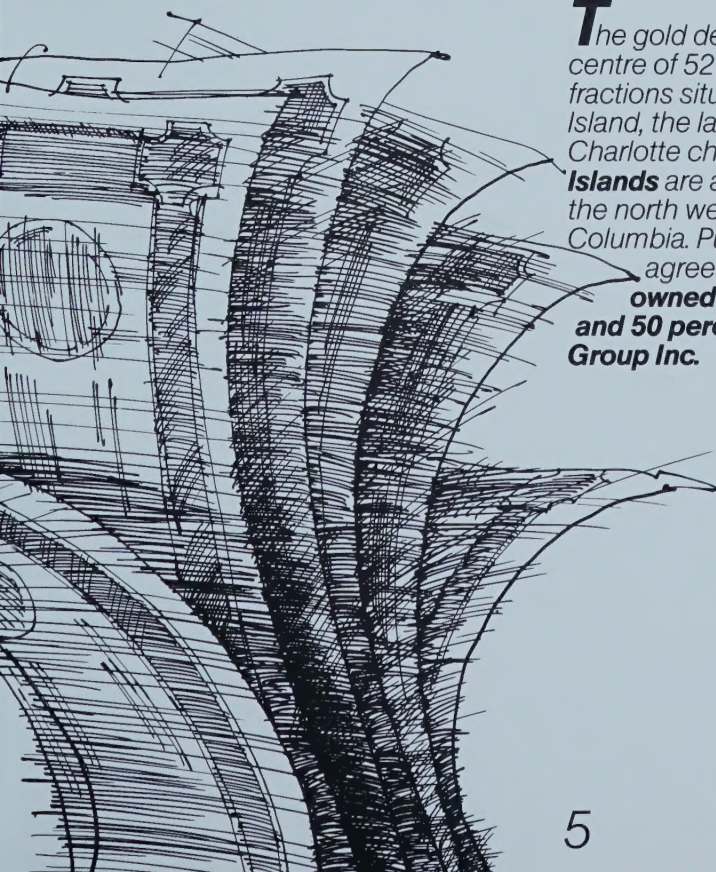


Estimated ore reserves of 41,000,000 metric tonnes grading 0.067 oz. gold per tonne indicate in place **gold reserves of 2,747,000 ounces.** At current projected mining and milling schedules the mine should produce an average of **225,000 ounces of gold per year.**



The estimated capital cost of a 13,500 tonne per day mining and milling operation is **\$183,000,000 Canadian.** Operating costs are estimated at **\$9.58 Canadian per tonne** or a **cost per ounce of approximately \$200 U.S.** Based on a 100 percent equity financing scenario, the **payback period is estimated at 2.7 years.**

The size and shape of the deposit make it very amenable to open pit mining methods. Open pit mining utilizes economies of scale and therefore is relatively inexpensive. It is currently estimated that enough ore will be mined to process **13,500 metric tonnes per day**. A conventional gold recovery circuit will be in place in the mill. Current reserves and mill capacity estimates indicated a **mine life of 8.9 years**.



The gold deposit is located in the centre of 52 mineral claims and fractions situated on central Graham Island, the largest of the Queen Charlotte chain. The **Queen Charlotte Islands** are approximately 80 miles off the north west coast of British Columbia. Pursuant to a Joint Venture agreement, the claims are **owned 50 percent by Cinola and 50 percent by Energy Reserves Group Inc.**



In the past we have made a policy of not diverting our time, energy and money away from the Queen Charlotte Project. The success of this Company depends completely on our ability to see the Queen Charlotte Project through to commercial production. As production is now in the foreseeable future, we have started to think about the post production development stage of this Company. To this end some low cost highly leveraged positions have been taken in exploration possibilities.

Kelly Gold Mines Inc.

Cinola holds 36 percent of the outstanding stock in Kelly Gold Mines Inc., a Delaware exploration company. Kelly is managed by Cinola personnel.

The Company is engaged in a joint venture with Suneva Resources Ltd. whereby Kelly can earn 50 percent interest in Suneva's Alligator Ridge, Nevada claims by spending three million dollars (\$3,000,000) U.S. over three years. The Company is committed to an initial expenditure of three hundred thousand dollars (\$300,000).

The key claim group is located on the eastern slope of Alligator Ridge in White Pine County. On the western slope of the ridge, Amselco and Occidental Petroleum are operating an open pit, heap leach gold mine.

Geological mapping and soil sampling by Kelly have located drill targets in addition to those tested by Suneva in 1980. Close proximity to a producing mine and a similar geological environment make this project an excellent exploration bet.

Kelly also holds 62 units on the Queen Charlotte Islands not far from the Cinola deposit. An extensive geochemical program was undertaken in 1981 and has located several good drill targets.

The best target exists approximately ten kilometres south-east of the Cinola deposit. This area is cut by the same fault system which is the structural control of gold mineralization at Cinola. The 1981 program showed a large coincident mercury and arsenic anomaly in this area. Ore grade float has been located in this area.

Westland Syndicate

Cinola holds a 20 percent interest in an exploration syndicate along with four other participants. The purpose of the syndicate is to acquire resource projects, undertake initial development, and spin the projects off for a leveraged type of consideration.

The syndicate has submitted to the Australian Government three exploration permit applications to explore for oil and gas. The areas under application are in the Canning Basin in Western Australia and are believed to be on the same structure as the discovery wells in that area. Each

permit application consists of over 40 blocks. A block is 25 square miles. At the time of this report, the applications are still pending.

The syndicate has staked 63 mineral claims in the Thunder Bay, Ontario mining district adjoining the claims owned by the Consolidated Louanna-Cumo joint venture. Consolidated Louanna recently commenced production at close to 200 tons per day. The grade of ore is reported at approximately 0.4 oz. gold per ton.

Ark La Tex Petroleum Corporation

Cinola holds a minor pre-prospectus share position in Ark La Tex Petroleum Corporation. Ark La Tex holdings include a 65 percent net revenue interest in approximately 320 acres of oil and gas leases in the Yates field, Pecos County, Texas. The Yates oil field is one of the most famous large Texas oil fields having produced, since discovery in 1926, over 900,000,000 barrels of oil from its more than 800 wells.

**Consolidated
Cinola Mines Ltd.**

Balance Sheet

as at December 31, 1981

Assets

	1981	1980
Current Assets		
Cash and short-term deposits	\$ 952,099	\$ 730,363
Accounts receivable (note 4)	15,381	79,623
	967,480	809,986
Investments (note 3)	121,016	—
Mineral Properties and Deferred Costs (note 4)	7,321,118	2,178,246
Fixed Assets (note 5)	50,614	97,854
	\$8,460,228	\$3,086,086

Liabilities

Current Liabilities		
Accounts payable and accrued liabilities	\$ 71,463	\$ 100,888
Long-Term Debt (note 6)	5,357,105	430,638
	5,428,568	531,526

Shareholders' Equity

Capital Stock (note 7)	3,843,125	3,268,645
Deficit	811,465	714,085
	3,031,660	2,554,560
	\$8,460,228	\$3,086,086

Approved by the Directors

K. G. Sanders

Director

G. Sanders

Director

Consolidated Cinola Mines Ltd.

Statement of Deficit

for the year ended December 31, 1981

	1981	1980
Balance—Beginning of Year	\$ 714,085	\$ 714,085
Write-off of interest in mineral properties	40,000	—
Write-off of mining equipment (note 5)	57,380	—
Balance—End of Year	\$ 811,465	\$ 714,085

Statement of Deferred Costs

for the year ended December 31, 1981

	1981	1980
Administrative—per Schedule	\$ 778,222	\$ 312,891
Exploration and Development		
Construction consulting	19,985	—
Westland Syndicate exploration	7,200	—
	27,185	—
	805,407	312,891
Deferred Costs—Beginning of Year	1,133,858	820,967
Deferred Costs—End of Year	\$1,939,265	\$1,133,858

Schedule of Deferred Administrative Costs

for the year ended December 31, 1981

	1981	1980
Advertising	\$ 16,119	\$ 7,108
Automobile	15,832	8,522
Corporation capital tax	15,829	—
Depreciation	10,708	19,504
Donations, dues and subscriptions	8,420	7,739
Equipment rental	8,622	4,539
Interest on long-term debt	549,002	—
Legal, accounting and audit	34,803	29,714
Office supplies, postage and delivery	14,811	10,778
Printing and stationery	31,397	27,232
Public relations, travel and promotions	50,881	85,942
Rent	15,429	11,217
Salaries and benefits	188,645	130,619
Sundry	10,414	1,559
Telephone and telegraph	12,433	18,672
Transfer agent fees	17,045	19,116
	1,000,390	382,261
Less: Overhead charges recovered from joint venture	30,000	29,905
Interest income	192,168	39,465
	222,168	69,370
	\$ 778,222	\$ 312,891

**Statement of Changes
in Financial Position**

for the year ended December 31, 1981

	1981	1980
Source of Working Capital		
Proceeds from issue of capital stock	\$ 574,480	\$ 873,030
Long-term debt	4,926,467	430,638
	5,500,947	1,303,668
Use of Working Capital		
Exploration, development and administrative costs	805,407	312,891
Deduct: Depreciation, which does not require use of working capital	10,708	19,504
	794,699	293,387
Fixed asset additions	20,848	45,631
Purchase of investments	121,016	—
Joint venture	4,377,465	393,492
	5,314,028	732,510
Increase in Working Capital	186,919	571,158
Working Capital—Beginning of Year	703,098	137,940
Working Capital—End of Year	\$ 896,017	\$ 709,098
Represented by:		
Current assets	967,480	809,986
Current liabilities	71,463	100,888
	\$ 896,017	\$ 709,098

Notes to Financial Statements

for the year ended December 31, 1981

1. Nature of Operations

The company is in the process of developing its Queen Charlotte mineral properties and is of the opinion that these properties contain economically recoverable ore reserves. The recoverability of the amounts shown for mineral properties and related deferred costs is dependent upon the ability of the company to obtain necessary financing to complete the development, and upon future profitable production.

2. Significant Accounting Policies

Deferred Costs

Exploration, development and administrative costs relating to mineral properties are deferred until the properties are brought into production, at which time they are amortized on a unit of production basis. If properties are abandoned or sold, the deferred costs are written off at that time.

Depreciation

Depreciation of office furniture is calculated using the declining-balance method at the annual rate of 20%. Leasehold improvements are amortized at 20% per annum on a straight-line basis. The automobile is depreciated at 25% per annum on a declining-balance method.

Joint Venture

The company proportionately consolidates its share of the assets and liabilities, net earnings or losses of the joint venture.

Loss per Share

Basic loss per share has not been calculated as it is not considered meaningful at this stage in the company's operations.

3. Investments

Kelly Gold Mines Inc.—at equity	
1,000,000 shares	\$ 72,216
Ark La Tex Petroleum Corp.—at cost	
20,000 shares	26,000
Westland Syndicate—at equity	
30 units	22,800
	\$ 121,016

All the company's investments are involved in exploration and development of natural resources. At December 31, 1981 there were no quoted values for these investments.

4. Mineral Properties and Deferred Costs

	1981	1980
Queen Charlotte Joint Venture	\$4,808,103	\$ 430,638
Mineral Properties	573,750	613,750
Deferred Costs—per statement	1,939,265	1,133,858
	\$7,321,118	\$2,178,246

Substantially all of the company's activities are directed to the development of the company's Queen Charlotte mineral properties.

(a) Mineral Properties

The company's mineral properties known as the Queen Charlotte Gold Prospect, are situated in the Queen Charlotte Islands, in the Skeena Mining Division, British Columbia. These properties were acquired for \$450,000 cash and 300,000 shares of the company. Energy Reserves Canada, Ltd. ("ERC") has earned a 50% interest in these properties, having contributed \$5,000,000 to their development.

(b) Queen Charlotte Joint Venture

Under an agreement dated November 21, 1979 the company and ERC entered into an unincorporated joint venture to explore, develop, mine, process and sell gold and other minerals from the Queen Charlotte Gold Prospect.

Initial contribution by ERC to earn 50% interest	\$ 5,000,000
Subsequent contributions to joint venture	
By the company (note 6)	\$4,808,103
By ERC	4,808,103
Total contributions from inception to December 31, 1981	\$14,616,206

Contributions over the first \$5,000,000 provided by ERC to the joint venture are shared equally between ERC and the company. During the year the company charged \$77,878 to the joint venture for costs incurred on the venture's behalf. Included in accounts receivable at December 31, 1981 was \$6,048 due from the joint venture.

5. Fixed Assets

5. Fixed Assets		1981	1980	
	Cost	Accumulated depreciation	Net	Net
Mining equipment	\$ —	\$ —	\$ —	\$57,380
Office furniture	46,402	12,614	33,788	37,568
Leasehold improvements	3,229	969	2,260	2,906
Automobile	16,848	2,282	14,566	—
	\$66,479	\$15,865	\$50,614	\$97,854

During the year, mining equipment with a net book value of \$57,380 was abandoned.

6. Long-Term Debt

	1981	1980
Loan payable	\$4,808,103	\$ 430,638
Accrued interest	549,002	—
	\$5,357,105	\$ 430,638

The long-term debt arises as a result of financing of the company's portion of joint venture costs by Energy Reserves Canada, Ltd. The loan is subject to the Bank of Nova Scotia prime rate of interest plus one percent. The loan and interest are repayable from 50% of the share of operating profits of the joint venture distributed to the company.

The company's share of all assets of the Queen Charlotte Joint Venture has been pledged as security for the repayment of such loan.

7. Capital Stock

	1981	1980
Authorized—		
10,000,000 shares without par value		
Issued and fully paid—		
3,682,688 shares for cash	\$3,524,200	\$2,949,720
690,438 shares for mineral properties	318,925	318,925
4,373,126	\$3,843,125	\$3,268,645

During the year ended December 31, 1981, the company issued 500,000 shares for a cash consideration of \$550,000 relating to warrants exercised and 1,700 shares for a cash consideration of \$24,480 relating to options exercised.

Stock Options

Employees of the company have the following stock options outstanding:

- (i) An option to purchase 17,100 shares of the company at \$14.40 per share by March 28, 1985.
- (ii) One-year option commencing December 11, 1981 to purchase 15,000 shares at U.S. \$14.75 per share. One-year option commencing December 11, 1982 to purchase 20,000 shares at U.S. \$15.00 per share.

During the year the authorized capital of the company was increased from 5,000,000 to 10,000,000 shares without par value.

8. Commitments

The company is committed to make minimum payments under the terms of lease agreements as follows:

Year ending December 31, 1982	\$48,357
1983	48,357
1984	40,273
1985	24,147

The company has entered into five-year employment contracts with four directors, one officer and an employee of the company commencing January 1981 with options to renew them for an additional five years at the discretion of the individuals. The contracts provide for minimum yearly increments in remuneration at a rate which is 5% higher than the cost of living index. At December 31, 1981 the annual salaries under these contracts totalled \$163,300.

9. Related Party Transactions

The company has undertaken a number of related party transactions during the year, all of which are disclosed in the notes to these financial statements.

10. Comparative Figures

Comparative figures are based upon financial statements which were reported on by other auditors.

Auditors' Report to the Shareholders

We have examined the balance sheet of Consolidated Cinola Mines Ltd. as at December 31, 1981 and the statements of deficit, deferred costs and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand
Chartered Accountants

Vancouver, B.C.
March 3, 1982

Consolidated Cinola Mines Ltd.

Officers and Directors

Angelo Tosi
Chairman and Director
Kenneth G. Sanders, P.Eng.
President and
Chief Executive Officer
Nola Peterson
Secretary and Director
George Sanders
Vice President and Director
William R. Green, Ph.D.
Director
Reno Calabrigo
Vice President

Cinola Operating Company Ltd.

Kenneth G. Sanders, P.Eng.
Chairman
David W. McSkimmings, P.Eng.
President

Solicitors

Swinton & Company
1300-1090 W. Georgia Street
Vancouver, B.C.
Milgrim, Thomajan, Jacobs & Lee
405 Lexington Avenue
New York, N.Y. 10017

Bank

Toronto Dominion Bank
Hastings and Hornby
839 W. Hastings St.
Vancouver, B.C.

Registrar and Transfer Agent

Crown Trust Company
700-750 W. Pender Street
Vancouver, B.C.
320 Bay Street
Toronto, Ontario

Investment Bankers

Drexel Burnham Lambert
60 Broad Street
New York, N.Y.

Exchange Listing

Vancouver Stock Exchange
Symbol CSZ
Over-the-counter
NASDAQ symbol CCIMF

Head Office:

402-595 Howe Street,
Vancouver, B.C.

Registered Office:

1300-1090 W. Georgia Street,
Vancouver, B.C.

Authorized Capitalization:

10,000,000 common shares

Issued:

4,373,126

Direct Inquiries to:

George Sanders, Vice President
402-595 Howe Street,
Vancouver, B.C. V6C 2T5



